

AR32



**Benson & Hedges (Canada) Limited**  
**Annual Report 1978**







## Contents

---

Review of the Year
Consolidated Balance Sheet
Consolidated Statement of Earnings
Consolidated Statement of Retained Earnings
Consolidated Statement of Changes in Financial Position
Notes to Consolidated Financial Statements
Auditors' Report
Five Year Summary
Directors and Officers





## Review of the Year

The Company's consolidated sales revenue in 1978 amounted to \$186,304,000 which compares with the \$196,371,000 result achieved in 1977. Unit sales of cigarettes in 1978 were 7.6 billion which represented a 12.2% share of the domestic cigarette market.

Net earnings in 1978 were \$5,716,000 compared with \$6,572,000 in 1977. Government anti-inflation pricing regulations in effect in 1978 prevented the Company from obtaining price relief to offset significant inflationary cost increases. The impact of this pressure on profitability, together with the decline in sales volume, led to the reduction in net earnings for the year under consideration. It was decided that no dividends would be declared or paid in 1978.

### Marketing

Developments in the industry during the year continued to reflect the trend towards milder cigarettes. Eight new products were launched, each of them being an extension of an existing brand family into a lower delivery segment.

In response to the growing consumer preference for milder products, the Company launched Benson & Hedges Lights King Size, thereby restoring the sales growth pattern for the Benson & Hedges brand family of products. In addition, the test-market introduction of Mark Ten Lights in the Province of Quebec, during the fourth quarter of the year, met with an encouraging degree of success which augurs well for the future progress of the well known Mark Ten brand family. Sales of Belvedere Extra Milds progressed strongly in 1978, thereby demonstrating the potential to rejuvenate the Belvedere family. The Viscount brand family, with its continued high level of consumer acceptance during 1978, placed the Company at the forefront of participants in the expanding ultra mild segment.

### Operations

The Company's continuing commitment to the efficient manufacture of the highest quality products remained as the overriding objective for the Operations Department. Quality control programs were further expanded and the most modern scientific testing equipment installed during the year so as to ensure preservation of the Company's reputation as a manufacturer of quality products. In addition, investments were made to further modernize the Company's manufacturing facilities located in Brampton and Montreal. As a result of these investments, further quality improvements and productivity gains were realized in both of these factories.

### Leaf

The Company together with the other three Canadian

cigarette manufacturers continued with an established program whereby subsidies were contributed to promote export sales of approximately 100 million pounds of Ontario grown leaf. The export sales generated through this program are considered to be of substantial positive benefit to the country's economy.

Our leaf stemmery, located at Delhi, Ontario, achieved very satisfactory results during 1978, thereby reflecting the strict quality control standards set in purchasing and processing. In addition to the Company's own leaf requirements, the facility processed an increased quantity of tobacco for export dealers on a contract basis.

### Smoking and Health

The Company, in cooperation with other Canadian cigarette manufacturers, continued its support of independent medical research in relation to smoking and health through additional contributions to the Canadian Tobacco Manufacturers Council. The uncertainties surrounding data that have been used as the basis for allegations against cigarettes have not prevented government and public attacks on smokers and the tobacco industry. During 1978, the anti-smoking movement succeeded in having legislation passed to prohibit smoking in most public places in a number of municipalities, and the media gave unparalleled coverage to new stories condemning smoking.

The Company presented a public smoking information program to its employees and to trade groups to better inform them of the facts surrounding the controversy. With the aid of films, audio-visual presentations and literature, the program presents the positive aspects of smoking as well as some of the weaknesses in the current anti-smoking arguments. It is suggested that the encouragement of mutual respect and good manners is the appropriate response, and that legislative restrictions are not the answer.

The Board of Directors joins me in an expression of gratitude to all employees of the Company whose dedication and commitment to high standards of performance are vital to the progress of the Company. I am confident that with their continued support and contribution, the Company will soon resume its former growth trends in sales performance and profitability.

William H. Webb  
President





## Consolidated Balance Sheet as at December 31, 1978

Benson & Hedges (Canada) Limited

### Assets

#### Current Assets

Short-term deposit	\$ 11,494,000	\$ —
Notes receivable - current portion	1,738,000	1,738,000
Accounts receivable (note 2)	21,139,000	24,742,000
Accounts receivable - affiliates	533,000	357,000
Income taxes recoverable	1,464,000	733,000
Inventories (note 3)	53,416,000	47,262,000
Prepaid expenses	540,000	422,000
Total current assets	<u>90,324,000</u>	<u>75,254,000</u>

Notes Receivable - less current portion

15,874,000      17,583,000

#### Fixed Assets (note 4)

Land, buildings and equipment - at cost	37,707,000	36,371,000
Accumulated depreciation	15,128,000	13,820,000
	<u>22,579,000</u>	<u>22,551,000</u>
	<u>\$128,777,000</u>	<u>\$115,388,000</u>

### Liabilities

#### Current Liabilities

Bank indebtedness	\$ 27,880,000	\$ 19,978,000
Notes payable	24,803,000	24,886,000
Accounts payable and accrued liabilities	12,950,000	14,800,000
Accounts payable - affiliates	144,000	171,000
Total current liabilities	<u>65,777,000</u>	<u>59,835,000</u>

#### Deferred Income Taxes

5,377,000      3,373,000  
71,154,000      63,208,000

#### Shareholders' Equity

##### Capital Stock

Authorized -  
6,000,000 shares without nominal or par value

Issued and fully paid -  
4,577,085 shares

22,134,000      22,134,000

#### Retained Earnings

35,489,000      30,046,000  
57,623,000      52,180,000  
\$128,777,000      \$115,388,000

Signed on Behalf of the Board

*William H. Webb*

Director

*Norman J. Smith*

Director





## Consolidated Statement of Earnings

Benson & Hedges (Canada) Limited  
For the Year Ended December 31, 1978

	1978	1977
<b>Sales</b>	<b>\$186,304,000</b>	<b>\$196,371,000</b>
Less: Excise and sales taxes	<u>99,235,000</u>	<u>107,589,000</u>
	<b>87,069,000</b>	<b>88,782,000</b>
<b>Costs</b>		
Manufacturing, distributing, selling, general and administrative	<b>74,892,000</b>	<b>75,526,000</b>
Depreciation	<b>2,175,000</b>	<b>2,102,000</b>
Interest - net	<b>1,602,000</b>	<b>1,296,000</b>
Unrealized exchange gain on U.S. term deposit	<b>(248,000)</b>	<b>—</b>
	<u><b>78,421,000</b></u>	<u><b>78,924,000</b></u>
<b>Earnings Before Income Taxes</b>	<b>8,648,000</b>	<b>9,858,000</b>
<b>Provision for Income Taxes</b>		
Current	<b>928,000</b>	<b>4,131,000</b>
Deferred	<b>2,004,000</b>	<b>(1,077,000)</b>
	<u><b>2,932,000</b></u>	<u><b>3,054,000</b></u>
<b>Earnings Before Extraordinary Item</b>	<b>5,716,000</b>	<b>6,804,000</b>
<b>Extraordinary Item</b>		
Losses on disposal of certain assets	<b>—</b>	<b>232,000</b>
<b>Net Earnings for the Year</b>	<u><b>\$ 5,716,000</b></u>	<u><b>\$ 6,572,000</b></u>

## Consolidated Statement of Retained Earnings

Benson & Hedges (Canada) Limited  
For the Year Ended December 31, 1978

	1978	1977
<b>Balance - Beginning of Year</b>	<b>\$30,046,000</b>	<b>\$27,260,000</b>
Net earnings for the year	<u><b>5,716,000</b></u>	<u><b>6,572,000</b></u>
	<b>35,762,000</b>	<b>33,832,000</b>
Dividends - cash	<b>—</b>	<b>3,227,000</b>
- stock	<b>—</b>	<b>1,791,000</b>
	<u><b>—</b></u>	<u><b>5,018,000</b></u>
Refundable dividend tax (recovery) (note 10)	<b>273,000</b>	<b>(1,232,000)</b>
<b>Balance - End of Year</b>	<u><b>\$35,489,000</b></u>	<u><b>\$30,046,000</b></u>





## Consolidated Statement of Changes in Financial Position

Benson & Hedges (Canada) Limited  
For the Year Ended December 31, 1978

1978

1977

### Source of Working Capital

Earnings before extraordinary item	\$ 5,716,000	\$ 6,804,000
Items not affecting working capital -		
Depreciation	2,175,000	2,102,000
Deferred income taxes	2,004,000	(1,077,000)
Provided from operations	9,895,000	7,829,000
Disposal of fixed assets	548,000	470,000
Notes receivable	1,709,000	1,185,000
Refundable dividend tax	—	1,232,000
Source of working capital	12,152,000	10,716,000

### Use of Working Capital

Cash dividends	—	3,227,000
Additions to fixed assets	2,751,000	3,726,000
Refundable dividend tax	273,000	—
Net reduction in working capital resulting from losses on disposal of certain assets	—	232,000
Use of working capital	3,024,000	7,185,000

### Increase in Working Capital

9,128,000 3,531,000

### Working Capital - Beginning of Year

15,419,000 11,888,000

### Working Capital - End of Year

\$24,547,000 \$15,419,000

## Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Limited  
For the Year Ended December 31, 1978

### 1. Summary of Accounting Policies

The significant accounting policies followed by Benson & Hedges (Canada) Limited and subsidiary company are presented below to assist the reader in reviewing the consolidated financial statements and other data contained in this report. These policies comply with generally accepted accounting principles and have been consistently applied.

#### Consolidation -

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary B & H Retail Limited.

#### Receivables -

Current earnings are charged and an allowance is credited with a provision for doubtful accounts based on experience and on any unusual circumstances which may affect the ability of customers to meet their obligations. Accounts deemed uncollectible are charged against this allowance. Receivables are reported on the balance sheet net of such accumulated allowances.

#### Inventories -

Inventories are valued at the lower of cost and net realizable value. The cost of leaf tobacco is determined on an average cost basis and the cost of other inventories is determined generally on a first in, first out basis. It is generally recognized industry practice to classify the total amount of leaf tobacco as a current asset although part of such inventory, because of the duration of the aging process, ordinarily would not be utilized within one year.

#### Fixed assets -

Maintenance and repairs are charged against income and expenditures for renewals and improvements are capitalized. Provision for depreciation of assets is recorded by a charge against income at rates, which are considered adequate to amortize the cost of such assets over their useful lives using the straight-line method of computation. The useful lives assumed are as follows:

Assets	Useful lives
Land improvements	10 years
Building and building equipment	10 - 40 years
Machinery and equipment	5 - 15 years
Furniture, fixtures and data processing equipment	3 - 10 years
Transportation equipment	4 years
Leasehold improvements	Term of lease





## Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Limited  
For the Year Ended December 31, 1978

### 1. Summary of Accounting Policies (cont'd.)

#### Income taxes -

The provision for income taxes is calculated separately on reported pre-tax earnings for the parent company and its subsidiary. Certain items of income and expense included in the financial statements, such as depreciation, are claimed in different years for tax purposes in accordance with applicable income tax laws. The resulting difference between the financial statement income tax provision and income taxes currently payable is reported in the financial statements as deferred income taxes.

#### Foreign exchange -

Foreign currency balances receivable and payable have been translated into Canadian dollars at the rates of exchange prevailing on the balance sheet date.

#### Pension plans -

The company and its subsidiary have pension plans covering substantially all of their employees. Prior service costs are amortized over periods of up to fifteen years and accrued pension costs are funded with independent trustees.

### 2. Accounts Receivable

Accounts receivable include trade receivables of \$19,885,000 in 1978 and \$23,622,000 in 1977 offset by allowances for doubtful accounts and for sales discounts of \$654,000 in 1978 and \$758,000 in 1977.

### 3. Inventories

Inventory components are as follows:

	1978	1977
Leaf tobacco	\$39,852,000	\$35,810,000
Packaging and other raw materials	2,247,000	1,893,000
Work in process	464,000	388,000
Finished goods	9,137,000	7,632,000
Machine parts and supplies	1,716,000	1,539,000
Total inventories	<u>\$53,416,000</u>	<u>\$47,262,000</u>

### 4. Fixed Assets

	1978			1977		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	\$ 828,000	\$ —	\$ 828,000	\$ 828,000	\$ —	\$ 828,000
Land improvements	109,000	60,000	49,000	100,000	52,000	48,000
Buildings and building equipment	8,630,000	3,361,000	5,269,000	8,233,000	2,991,000	5,242,000
Machinery and equipment	22,827,000	10,122,000	12,705,000	20,753,000	8,893,000	11,860,000
Furniture, fixtures and data processing equipment	1,645,000	851,000	794,000	1,376,000	713,000	663,000
Transportation equipment	610,000	274,000	336,000	1,422,000	626,000	796,000
Leasehold improvements	652,000	460,000	192,000	805,000	545,000	260,000
Construction and machinery installation in progress	2,406,000	—	2,406,000	2,854,000	—	2,854,000
	<u>\$37,707,000</u>	<u>\$15,128,000</u>	<u>\$22,579,000</u>	<u>\$36,371,000</u>	<u>\$13,820,000</u>	<u>\$22,551,000</u>

The provision for depreciation included in the statements of earnings for 1978 and 1977 is \$2,175,000 and \$2,102,000 respectively computed on the straight-line method.

### 5. Rental Expense

Total rental expense included in the statements of earnings for the years ended December 31, 1978 and December 31, 1977 was \$1,062,000 and \$700,000 respectively.

The minimum rental commitments under all non-cancellable leases for each of the five years ending December 31 are as follows:

1979	\$726,000	1980	\$713,000	1981	\$431,000	1982	\$37,000	1983	\$1,000
------	-----------	------	-----------	------	-----------	------	----------	------	---------

### 6. Remuneration of Directors and Officers

During the year the directors of the company numbered twelve (1977 - thirteen) and their aggregate remuneration as directors was \$15,000 (1977 - \$15,000). Five of the company's directors are also officers of the company (1977 - six). The officers of the company numbered nine (1977 - nine) and their aggregate remuneration as officers was \$398,000 (1977 - \$294,000).

### 7. Contingent Liabilities

During 1974, the company instituted legal action against a supplier to recover the cost of defective materials delivered in prior years to the Formosa Spring Brewery Division in the amount of \$536,000. This action is being defended by the supplier and the supplier has made a counter claim for damages in the amount of \$1,507,000. This claim has been denied and with the advice of counsel, is being vigorously contested. Accordingly, no provision or adjustment has been made in the financial statements.





## Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Limited  
For the Year Ended December 31, 1978

### 8. Pension and Retirement Plan

Pension plan expense included in the statement of earnings for the years ended December 31, 1978 and 1977 was \$645,000 and \$649,000 respectively. Included in expense for 1978 and 1977 is the amortization of the unfunded liability of \$240,000 in each year of which \$17,000 pertains to the amortization of prior years' past service cost. The unfunded liability outstanding was estimated to be \$322,000 as at December 31, 1978, and \$562,000 as at December 31, 1977.

### 9. Commitments

As at December 31, 1978, the company has made financial commitments of \$939,000 for purchases of equipment and \$3,300,000 for purchases of inventories.

### 10. Refundable Dividend Tax

Certain taxes paid by the company on investment income are refundable to the company at the rate of \$1 for every \$4 of taxable dividends paid to shareholders. The current year's refundable tax and the cumulative refundable amount as at December 31, 1978 was \$273,000. Such tax and its recovery is charged and credited to retained earnings.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Benson & Hedges (Canada) Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Coopers & Lybrand*

Coopers & Lybrand  
Chartered Accountants

January 5, 1979

### Five Year Summary

(Canadian \$ ,000 omitted)

	1978	1977	1976	1975	1974
Sales	\$186,304	\$196,371	\$214,487	\$200,398	\$173,078
Earnings Before Income Taxes and Extraordinary Items	\$ 8,648	\$ 9,858	12,438	15,007	6,562
Net Earnings	\$ 5,716	\$ 6,572	6,742	8,429	3,696
Capital Expenditures	\$ 2,751	\$ 3,726	4,621	5,062	3,925
Working Capital	\$ 24,547	\$ 15,419	11,888	15,519	8,512
Shareholders' Equity	\$ 57,623	\$ 52,180	47,603	40,861	32,432
After-Tax Return on Shareholders' Equity	10.4%	13.2%	15.2%	23.0%	12.1%
Sales Units (Billions of Cigarettes)	7.613	8.262	9.066	8.703	8.103
Number of Employees	1,093	1,149	1,288	1,301	1,213





## Directors and Officers

### Directors

Hugh Cullman  
Group Executive Vice President  
Philip Morris Incorporated

Chairman & Chief Executive Officer  
Philip Morris U.S.A.

Geoffrey Bible  
Vice President  
Philip Morris International

John B. Claxton, Q.C.  
Partner  
Lafleur, Brown, de Grandpré

Norman Janelle  
Vice President, Finance & Administration  
Philip Morris Asia, Incorporated

Hamish Maxwell  
President & Chief Executive Officer  
Philip Morris International

R. William Murray  
President  
Philip Morris Europe, S.A.

Oscar Y. Primeau  
Vice President  
Benson & Hedges (Canada) Limited

John G. Pritchard  
Senior Engineer  
Philip Morris U.S.A.

The Hon. Maurice Sauvé, P.C.  
Executive Vice President,  
Administrative and Public Affairs  
Consolidated Bathurst Inc.

William Stevenson  
President  
Millbrook Industries Limited

William H. Webb  
President  
Benson & Hedges (Canada) Limited

### Officers

Hugh Cullman  
Chairman of the Board

William H. Webb  
President

John J. O'Brien  
Vice President Marketing

Oscar Y. Primeau  
Vice President Corporate Relations

Derek L. Smith  
Vice President Finance & Administration  
Treasurer

Udo R. Westphal  
Vice President Operations

Dennis Robertson  
Controller

Kenneth Erlick  
Secretary

### Auditors

Coopers & Lybrand

### Bankers

The Royal Bank of Canada  
The Bank of Montreal

### Legal Counsel

Lafleur, Brown, de Grandpré  
Miller, Thomson, Sedgewick,  
Lewis & Healy







